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The Legislative Assembly of
British Columbia

Social Housing:
Governance and Management of Subsidies

Select Standing Committee on
Public Accounts
Report

2000

Canadian Cataloguing in Publication Data
British Columbia. Legislative Assembly. Select Standing Committee on Public Accounts.
Social Housing : governance and management of subsidies

"Select Standing Committee on Public Accounts report."
Issued as the Standing Committee's 10th report of the 4th Session, 36th Parliament. Cf. Covering letter.
Submitted to Legislative Assembly of British Columbia. Cf. Covering letter.

ISBN 0-7726-4420-9

1. British Columbia Housing Management Commission - Evaluation. 2. British Columbia. Provincial Rental Housing Corporation - Evaluation. 3. Public housing - British Columbia. I. Title

HD7288.78.C32B74 2000 353.5'5 C00-960375-1

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November 7, 2000

To the Honourable,
The Legislative Assembly of the
Province of British Columbia
Victoria, British Columbia

Honourable Members:

I have the honour to present herewith the *Tenth Report* of the Select Standing Committee on Public Accounts for the Fourth Session of the Thirty-Sixth Parliament.

The *Tenth Report* covers the work of the Committee on the matter of **Social Housing: Governance and Management of Subsidies.**

Respectfully submitted on behalf of the Committee.

Mr. Rick Thorpe, MLA
Chair

Mr. Dan Miller, MLA
Deputy Chair

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INTRODUCTION

Scope of the Audits

In September 1999 the Auditor General released his eighth report to the Legislative Assembly for 1999/00, entitled *Social Housing: The Governance of the British Columbia Housing Management Commission and the Provincial Rental Housing Corporation; The Management of Social Housing Subsidies.* The report contained the results of two audits on key aspects of social housing in B.C.: the issue of governance and the management of subsidies.

The first audit examined the governance relationships and practices surrounding the British Columbia Housing Management Commission (BC Housing) and the Provincial Rental Housing Corporation (PRHC), the agencies responsible for implementing the government's social housing policy. It looked at how well the roles and responsibilities of those involved in the agencies' governance are defined and understood; how effectively direction is communicated to the agencies by those involved in their governance; and whether BC Housing and PRHC are being properly accountable for their performance to their stakeholders.

The second audit focused on the subsidies paid by BC Housing to organizations that sponsor and manage social housing developments. Its subsidy payments are the agency's largest single expense, accounting for over half of its budget. The purpose of the audit was to assess how well BC Housing manages the payment of subsidies for social housing.

The main conclusions of the Auditor General's two audits were that:

- The effectiveness of the governance of BC Housing and the PRHC is at risk, due to a lack of clarity and definition of various roles and responsibilities and to weaknesses in some governance practices.
- The process for paying rent subsidies to organizations that sponsor and manage social housing developments is satisfactory. However, the Auditor General has suggested that BC Housing could record information in a better way to ensure that its resources were directed to where they were most needed.

The fieldwork for both audits was completed prior to the cabinet reorganization on July 21, 1999, when responsibilities for housing were transferred from the Minister of Employment and Investment and the Minister of Municipal Affairs to the Minister of Social Development and Economic Security. The implications of this change in governance were not fully explored in the Auditor General's report.

The Auditor General's office told the committee that both audits focused on the effective implementation of policy decisions rather than on broader topics, such as the best model for delivery of social housing (government versus non-profit/co-op ownership and management), the cost-effectiveness of rent supplements versus subsidies, the role of tax incentives in the construction of private rental housing and the implications of a provincially controlled building code regulating the construction and demolition of buildings. Also, the audits were not designed to measure the effectiveness of existing social housing programs — i.e., whether the agencies were achieving their mandate and meeting housing needs — partly because BC Housing lacked a comprehensive performance management system when the fieldwork was done.

The Work of the Committee

The committee met in March 2000 to consider the Auditor General's report. It heard presentations by the Auditor General's office, BC Housing and the Ministry of Social Development and Economic Security. In their responses to the Auditor General's report, the committee members voiced concerns about the unresolved issue of the Legislative Assembly's oversight role in the governance of Crown corporations; the lack of information on the current state of the social housing sector in B.C.; the lack of clarity regarding reporting relationships; the lack of research on the criteria for defining and measuring the front-line success of BC Housing; and the use of information technology to minimize fraudulent claims re tenant incomes.

In response, BC Housing informed the committee that the 13 board members have accepted every one of the Auditor General's recommendations on how to improve the agency's governance and have already implemented three-quarters of them at minimal cost.

The committee received follow-up information from two of the witnesses. The Auditor General's office forwarded a response on the adoption of the B.C. Building Code. BC Housing reported back on June 30, 2000 on its progress in implementing the Auditor General's recommendations concerning governance and subsidy management.

THE AFFORDABLE HOUSING CHALLENGE

The two Crown corporations selected for the audits play a key role in the province's social housing sector. Established in 1967 as a Crown agency, BC Housing facilitates the delivery of social housing to people who cannot find adequate affordable housing in the private market. Under the Homes BC program, it finances and administers construction projects for its sponsors — i.e., the 550 non-profit societies and cooperatives that manage 29,000 social housing units in the province. It also administers the sponsors' operating agreements and subsidy payments, as well as rent supplement programs. It directly manages 8,000 public housing units and provides management support for 300 group homes and special needs residences.

The Provincial Rental Housing Corporation is also administered by BC Housing. Created in 1961 under the Company Act, it owns the provincial assets invested in social housing stock, worth $331 million in 1998/99. It carries out property transactions that add to or reduce the stock of land and buildings, and it leases land to non-profit sponsors for housing projects.

Both agencies are faced with the continual challenge of providing an adequate supply of affordable housing. Even though B.C. and Quebec are the only two provinces continuing to build social housing, at the time of the audit B.C.'s annual allocation of 600 new units could not keep pace with the demand. According to the Auditor General's report, in 1997 over 150,000 renters in the province were in need of affordable housing. The social housing sector finds it difficult to meet this need, due to the shortage of affordable rental housing for families, seniors, low-income urban singles and individuals with special needs. In the private housing market, high land and development costs, as well as renters' income levels and prevailing market rents, are all disincentives for developers to build affordable rental housing units. As a result, the shortfall is mainly being filled by secondary suites and rented homes and condominiums.

The two agencies also face the new challenge of responding to Ottawa's withdrawal from social housing programs. Since 1994 responsibility for programs wholly funded and administered by the federal housing agency, the Canada Mortgage and Housing Corporation, has been transferred to a number of provinces. But in B.C. no agreement has been reached yet on the transfer of 45,000 units to the provincial government. If the transfer occurs, BC Housing will have an increased portfolio and workload to manage.

GOVERNANCE

The audit focused on governance in the two provincial government agencies involved in delivering social housing programs. It defined governance as the authoritative direction or control over an organization and identified it as a key contributor and prerequisite for good performance. This concept was particularly important in the case of BC Housing and PRHC, where the structure has been more complex than in other Crown corporations. At the time of the audit the housing portfolio involved both cross-ministry issues and various levels of program delivery, so clarity regarding roles, relationships and powers, clear direction and accountability were important factors in achieving social housing goals. The governance audit was also relevant because BC Housing and the PRHC do not fall under the scope of the Crown Corporations Secretariat, due to their small size.

The purpose of the audit was to assess whether the governance relationships and practices with respect to BC Housing and the PRHC were sound. The audit team looked at three main components of governance:

1. the clarity of the roles and responsibilities of those involved in the agencies' governance;
2. the direction provided by the government and developed by both agencies; and
3. the accountability of the agencies to their stakeholders for their performance.

Roles and Responsibilities

The audit team found that roles and responsibilities were not well defined for five groups: the Legislative Assembly; central agencies; ministers and ministries; the BC Housing board, chair and general manager; and the PRHC board. For another group, social housing partners, the audit team found that roles and responsibilities were reasonably well understood.

Legislative Assembly

The Office of the Auditor General recommends that the government take appropriate action to enable Members of the Legislative Assembly to consider the recommendations in the "Second Report of the Select Standing Committee on Public Accounts" (January 1996) regarding the information and oversight needs of the Legislative Assembly.

The audit concluded that there is no clear oversight role for the Legislative Assembly. The Auditor General's report pointed out that legislative review of government performance was first considered by the Public Accounts Committee during a 1995 review of accountability issues. Recommendations for change in

Legislative Assembly practice were included in its January 1996 report and repeated in its August 1996 report. The relevant recommendations are summarized as follows:

- the government provide, on a timely basis:
  - information about the short- and long-term plans and goals of ministries and Crown corporations, including their respective programs and past performance; and
  - information about the results achieved, allowing comparison between actual and planned performance of government ministries and Crown corporations;
- such select standing committees be provided that are deemed appropriate to consider ministry and Crown corporation programs by sector; and
- the short- and long-term plans annual reports of ministries and Crown corporations, once tabled, stand referred to the committees above.

The Auditor General's office informed the committee members that the intention of the 1996 recommendations was to allow MLAs to receive and review systematically the budgets, plans and actual performance of Crown corporations like BC Housing. However, at the time of the committee's deliberations, there was still no legislated provision enabling MLA's to perform this oversight role. In addition, the Select Standing Committee on Crown Corporations had been inactive since its creation in 1992.

Several committee members expressed their frustration with the lack of government action on the 1996 recommendations to improve accountability for the spending of taxpayers' money through Crown corporations. They asked the Auditor General's office whether the change to summary accounts in the 2000/01 budget and estimates process will enable the Legislature to receive and review the plans of Crown corporations in the future. In response, the audit team predicted that there will be a change in focus as a result of moving to the summary account format. But the question of whether the MLAs will receive the specific plans was still under consideration.

It should be noted that since the committee met on this subject, the *Budget Transparency and Accountability Act* received Royal Assent on July 6, 2000. This legislation does require government organizations to publish annually 3-year performance plans and to report annually on actual results compared to the expected results identified in the performance plans.

Central Agencies

The Office of the Auditor General recommends that BC Housing liaise with the Crown Corporations Secretariat to keep up to date on the latest governance developments in the Crown corporation sector.

The audit found that Treasury Board's funding roles and responsibilities are well understood. However, neither BC Housing nor the PRHC are included in the portfolio of the Crown Corporations Secretariat. As a result, they are not benefiting from the secretariat's work in strategic and business planning and performance measurement and reporting.

BC Housing informed the committee in March 2000 that the agency is now in regular contact with the Crown Corporations Secretariat to learn about governance developments and standards.

Ministers and Ministries

The Office of the Auditor General recommends that the government review and finalize ministry roles and responsibilities as soon as is practicable to ensure that the minister responsible for housing has significant and timely support for developing policy. The government should communicate the roles and responsibilities to all affected parties in ministries, BC Housing and PRHC and to those who serve on such supporting groups as the Housing Advisory Council. At the same time, the government should review housing legislation to make it as coherent and current as possible.

The audit revealed a lack of clarity in both the roles of the ministers responsible for housing and the roles of the supporting ministries. The Auditor General's report concluded that the division of housing responsibilities at the time of the audit (March to December 1998) meant that the roles of the two ministries in policy development were not entirely clear to all those involved in the governance of BC Housing or the PRHC. On February 18, 1998 the Minister of Employment and Investment had been designated as the Minister Responsible for Housing, but in practice this meant responsibility for social housing only. The Ministry of Municipal Affairs remained the lead ministry for all other government housing policy issues and continued to provide limited support for social housing. Also, the audit found that pertinent lawmaking powers were scattered among pieces of legislation, which referred to defunct ministries in some cases.

The Auditor General's report suggested that the reassignment of the housing portfolio in the July 1999 cabinet reorganization to the Ministry of Social Development and Economic Security has the potential to clarify substantially the issues concerning ministry roles and responsibilities. As well, it offers a good opportunity to simplify the housing legislation.

The ministry's housing division representative reported to the committee in March 2000 that clarity has been achieved in terms

of roles and responsibilities, because there is now one minister responsible for both housing policy and social housing programs. Also, the Minister's Advisory Council on Affordable Housing is quite well integrated into the new ministry, and a review of housing legislation is underway to simplify and update it.

BC Housing's chair reported back on June 30, 2000 that communications and relationships with the ministry will also be strengthened by the recent appointment of the acting executive director in the ministry's housing division to the commission's board.

BC Housing Board

The Office of the Auditor General recommends that:

- *the board of BC Housing clearly define its role, seek approval for that role from the minister responsible, and then work to remove the impediments that have affected its ability to play an effective role in governance.*
- *the minister responsible assess whether the general manager of BC Housing should continue to hold positions in government ministries and in the Provincial Rental Housing Corporation and, if not remove these positions from the general manager's responsibilities.*
- *the board of BC Housing clarify the roles and responsibilities of the chair and the general manager, and that it communicate this clarification to management.*

BC Housing has an appointed board with provision for 16 commissioners, who are responsible for setting the agency's overall policy direction and overseeing the implementation of strategic initiatives. The audit found that in the past there were some impediments to the board playing a fully effective part in the governance of the agency. For example, the role of the appointed board had not been clearly set out. Also, the timing of board appointments disrupted the continuity of the board's oversight role and its leadership role in setting the direction for the agency, as commissioners used to be appointed for two-year terms that all lapsed on the same date. Since November 1998 board members serve for periods of one to three years.

Shortly before the audit, the government appointed a full-time chair to the board of BC Housing, whose role overlapped with the general manager's, making it difficult to identify who was responsible for what. At the time of the audit the general manager performed three roles, which also complicated accountability relationships. As well as acting as the agency's CEO responsible to its board, the general manager was also a member of the executive group in the Ministry of Employment and Investment and the president of the PRHC, reporting directly to the minister.

In March 2000 representatives of BC Housing informed the committee of the steps taken to improve the agency's governance.

For example, the board is now holding annual planning sessions to set strategic directions. Furthermore, it was expected that the governance manual would be ready for board review on March 11, 2000, and for full implementation by April 2000. Finally, the 2000/01 corporate plan commits the agency to implementing all the recommendations, with quarterly accountability reports on progress.

After receiving board approval on June 10, 2000, the board governance manual was forwarded to the committee and the Minister Responsible for Housing. It lays out the agency's core values, vision, guiding principles and mandate; the lines of authority; the responsibilities of the board, the chair and the CEO; the committee structure; board ethics and conflict of interest.

The agency's corporate plan summary for 2000/01 simply describes the implementation of recommendations arising from the external reviews as "a key challenge"; and its detailed three-year business plan does not mention them explicitly. The agency's 2000/01 quarterly accountability reporting framework, though, identifies successful implementation of the recommendations of the Office of the Auditor General and the Treasury Board as the "key piece" in achieving its objective of managing the use of resources, partnerships and technology effectively. The CEO and the executive committee are designated as having primary responsibility for implementation. Two indicators/targets are identified: consultation with tenants and sector representatives, and the creation of a key action plan or strategies. And quarterly reports on progress are promised.

Regarding staff positions, the committee was informed in March 2000 that the BC Housing board has created a CEO position to replace the general manager. The CEO now reports solely to the board and holds no staff position within the ministry. At the time of the committee's deliberations, the CEO remained president of the PRHC, but this was expected to change once BC Housing completed its review of the agency's structure it was doing for the minister.

On April 25, 2000 the BC Housing chair was appointed Associate Deputy Minister in the Ministry of Community Development, Cooperatives and Volunteers (Order in Council 765). In this capacity, his assignment is the Vancouver agreement, a five-year plan to tackle the drug problem in the downtown eastside.

Also, the first CEO of BC Housing resigned in the spring. The competition to find a replacement closed in mid-August. In the interim period, the agency's former director of development services is the acting CEO while continuing as the CEO of the Homeowner Protection Office, which is a Crown agency under the Ministry of Social Development and Economic Security.

PRHC Board

The Office of the Auditor General recommends that the government identify the governance and operational structure that will enable PRHC's activities to be carried out most cost-efficiently and effectively, while recognizing BC Housing's interest in PRHC's operations.

For the PRHC board, the audit's key finding was that the governance structure surrounding PRHC results in responsibilities and accountabilities that are inappropriate. At the time of the audit the PRHC board comprised the general manager — who served as the PRHC president — and the senior management team of BC Housing, and it reported to the Minister of Employment and Investment.

The audit team concluded that the PRHC's governance structure was inappropriate for two reasons. First, as the PRHC directors were BC Housing employees, they were not truly independent of one another or in their dealings with their board president, whom they reported to in their staff roles. Second, there was no line of accountability from the PHRC to the BC Housing board. This meant that the board had only a limited voice in protecting its legitimate interest in PRHC decisions concerning the developments it manages and subsidizes on behalf of taxpayers.

BC Housing informed the committee in March 2000 that its board was in the process of reviewing the governance structure of PRHC and preparing interim recommendations for the minister, pending the adoption of new legislation that will integrate the activities of BC Housing and the PRHC.

On June 30, 2000 the BC Housing board submitted to the committee the recommendations it had made to the minister, as sole shareholder of the PRHC. A motion adopted at its April 29, 2000 meeting proposed that an interim development committee of BC Housing be established to carry out all development approvals and that its members be appointed as PRHC directors, by virtue of their position at BC Housing. The five directors would be the chair, who would serve as PRHC president, the acting CEO, the development services director, the regional operations director and the chief financial officer. This arrangement would apply until legislation was passed merging the two agencies.

Social Housing Partners

The Office of Auditor General recommends that BC Housing strongly encourage its ministry, local government and non-profit partners to consult the commission in assessing the impact of any proposed reassignment of responsibility for special needs groups that involves a shelter component.

The Auditor General's report pointed out that both BC Housing and the PRHC have two principal social housing partners, the federal government and provincial ministries like Health that fund

special needs groups. Concerning cost-shared housing programs, the respective roles and responsibilities of BC Housing and the Canada Mortgage and Housing Corporation are clearly set out in the legislation and well understood by both partners. However, the audit found less clarity in BC Housing's relationships with its special needs housing partners. In particular, coordination of services pose a challenge, as one or more ministries can fund the care component while BC Housing covers the shelter costs of special needs groups. Also, BC Housing's role in providing the shelter component was not always clear to some local health authorities that became involved with special needs clients during the recent regionalization of health care.

BC Housing informed the committee in March 2000 that its CEO is the chair of an ADMs' committee on special needs housing and that the agency's staff works closely with local governments and non-profit sponsors.

Direction

Setting direction was the second component of governance examined in the audit. The audit team concluded that the government has prepared good written plans setting out its broad objectives for social housing. But it found that the BC Housing board has played only a limited role in providing its staff with direction for interpreting and implementing these plans. It needs to complete its strategic and business planning and to obtain government approval for its mandate and strategic plan.

Strategic and Business Planning

The Office of the Auditor General recommends that BC Housing expand the content of its strategic plan to identify how progress in pursuing the stated strategies will be measured. We also recommend that BC Housing continue to develop its business plans to give focus to establishing performance expectations and measuring results.

The audit team found that the board's 1997-99 strategic plan provided good, qualitative information about the agency's objectives and strategies and addressed those aspects of the government's affordable housing strategy to be implemented by the agency, such as maintaining the housing stock and managing the relationships with social housing partners. However, it did not clearly set out how it would measure success in achieving individual strategic objectives, such as increasing public support for social housing. Also, to support the strategic plan, the board needed to develop annual business plans that set out results to be achieved in the short term.

BC Housing informed the committee in March 2000 that the board's annual planning sessions in the past two years have set the

strategic direction in goals and defined measures of success for such activities as collection of rents. The commissioners are taking steps to ensure that government and board priorities are reflected in the agency's corporate plan and linked to day-to-day operations. Performance expectations and monitoring activities are identified separately in the agency's detailed business plan and the quarterly accountability reports.

In response, some committee members expressed the view that the agency's corporate plan summary could also refer to performance measurement reporting, and that its strategic plan could incorporate the province's health goals, especially the one relating to appropriate housing. The first health goal is "positive and supportive living and working conditions in all our communities." It includes housing objectives and gives examples of indicators.

It is noted that BC Housing's 2000/01 corporate plan summary does not refer to performance reporting or health goals. But its detailed business plan for the 2000-03 period does identify measures of success for five strategic objectives.

Government Approval of Mandate and Strategic Plan

The Office of the Auditor General recommends that the board of BC Housing formally obtain the government's approval for the board's interpretation of the commission's mandate and strategic plan.

The Auditor General's report pointed out that legislation and regulations provide BC Housing with broad powers to carry out government's social housing programs, and that it is the board's responsibility to develop its interpretation of the agency's mandate and to confirm that this is consistent with the government's expectations. However, at the time of the audit the board had not yet completed this task.

In response, BC Housing informed the committee in March 2000 that its powers and part of its mandate are defined in the British Columbia Housing Management Commission regulation (B.C. Reg. 490/79). Its mandate is also outlined in the agency's corporate plans that require government approval. BC Housing's 2000/01 corporate plan was approved by the minister in the spring of 2000.

Accountability

Accountability was the third component of governance looked at in the audit. The audit team found that the accountability of the PRHC was adequate in light of its limited operating functions. However, BC Housing's accountability needs improvement, regarding both the timeliness of statutory reporting and the type and amount of information it provides on its actual and planned

performance. Also, its role in sectoral reporting and its framework for performance reporting need attention.

Public reporting

The Office of the Auditor General recommends that:

- *the board of BC Housing ensure that the commission's annual report is presented to the minister responsible within the time limit imposed by legislation.*
- *BC Housing improve its public reporting by providing in its annual report information about: all key aspects of its performance (financial, organizational and program performance, legal compliance and fairness, equity and probity); measurable objectives and targets (when the commission has completed its process for developing business plans); and historical performance.*

In terms of meeting statutory reporting requirements, BC Housing is required to deliver its annual report to the minister within 120 days of its fiscal year-end. However, the audit team reported that it had not met this deadline for 1997/98 or 1998/99. As well, the audit team found that information the agency is required to produce, if requested under the Financial Administration Act, has not always been available.

Reporting on performance is another key element of accountability. But in the past, BC Housing's annual report did not cover all aspects of performance, and its actual performance was not compared with plans and targets. Also, it did not deal with how well BC Housing has complied with legislation that governs its activities or with government standards for doing business. However, the committee has learned that the 1999/00 annual report does include a performance report comparing actual performance to plans and targets.

BC Housing told the committee in March 2000 that steps have been taken to ensure that the 1999/00 annual report will be delivered in the required time period, and that the quarterly accountability reports will help to ensure that performance reporting is more systematic. The report was submitted to the Minister of Social Development and Economic Security on July 17, 2000, and it contains sections on compliance and performance reporting.

In the follow-up information submitted to the committee on June 30, 2000, BC Housing included copies of its accountability reports for the third and fourth quarters of the 1999/00 fiscal year, plus its quarterly accountability reporting framework for 2000/01. As well, a copy of its performance report for 1999/2000 was forwarded to the committee. This report provides information on BC Housing's success in meeting the targets set out in its corporate plan.

Sectoral Reporting

The Office of the Auditor General recommends that the minister responsible and the board of BC Housing decide what information should be reported with respect to the performance of the social housing sector and how best to collect that information. If BC Housing is considered to be the most appropriate agency to collect the information, then reporting expectations should be made clear to it.

The audit team concluded that although BC Housing is well placed to gather information about the sector as a whole, its role, if any, in doing this has still to be clarified.

BC Housing updated the committee members in March 2000 on actions taken to improve sectoral reporting. A definition of sectoral performance reporting and information on sponsor participation would be part of the 2000/01 corporate plan. In the multi-year business plan, generation of research reports and maintenance of data for the social housing sector is identified as one "key piece" of achieving the agency's strategic objective of developing a research capability.

BC Housing also told the committee that its corporate services branch is in the process of collecting data on the number of people who need affordable housing, the size of wait-lists and the condition of local housing stock. BC Housing is using this information as a basis for allocating projects and sharing it with MLAs and others seeking information about housing conditions in local communities.

In response to the committee's discussion about the benefits of social housing to individual tenants and society as a whole, BC Housing forwarded to the committee on June 30, 2000 information on the status of its two research initiatives. One focuses on the participants and supports in social housing programs, and the other is an evaluation of the cost-savings and other benefits arising from the purchase of the Sunrise and Washington hotels in Vancouver's downtown eastside.

Performance Reporting

The Office of the Auditor General recommends that:

- *the board of BC Housing identify its information needs as soon as possible to enable it to monitor the organization's performance effectively.*
- *the commission proceed as quickly as is practicable with the finalization and implementation of its performance measurement framework. In this regard, the board of BC Housing should satisfy itself that the framework provides an appropriate basis for the commission to demonstrate its performance in the context of government's overall social housing objectives.*

The audit team informed the committee that in the past BC Housing has lacked an adequate framework for measuring performance. To be able to report and monitor meaningful accountability information, the agency needed a measurement

system that captures all significant areas of performance. In recent years its management has been attempting to develop more comprehensive performance measures that should serve the needs of external stakeholders as well as its own needs. In the audit team's opinion, good measures are being planned for operational and financial performance, but the framework is weaker in demonstrating how well BC Housing is meeting its compliance obligations. So the team encouraged the completion of this framework and its speedy implementation.

On June 10, 2000 the BC Housing board approved the quarterly accountability reporting framework which contains indicators/ targets and reporting deadlines for each strategic objective defined in the 2000/01 corporate plan summary.

MANAGEMENT OF SUBSIDIES

The audit focused on BC Housing's processes for managing the subsidies it pays to 550 non-profit and co-op housing providers. Over $90 million is paid to these sponsors out of the $126 million the agency spends annually on subsidies and rent supplements. The audit team informed the committee that managing this flow of resources well is crucial to achieving social housing goals. Having good processes for managing subsidy dollars is also important in view of the potential devolution of the administration of 45,000 federal housing units to the provincial government.

The fieldwork was conducted between November 1998 and February 1999. According to the Auditor General's office, the terms of reference of its subsidy audit did not overlap with the scope of the confidential review of BC Housing's internal processes for achieving operational goals, which was undertaken in 1999 by the Treasury Board.

The purpose of the audit was to find out whether BC Housing's subsidy verification, payment and monitoring processes provide reasonable assurance that:

1. resources provided to sponsors are being used economically and efficiently;
2. tenant rents are correctly calculated;
3. subsidy payments are properly authorized and correct; and
4. standards of service set out in the operating agreements are delivered.

Use of Resources

The audit team informed the committee in March 2000 that BC Housing uses three main processes to ensure that the sponsors use subsidies economically and efficiently. The first involves reviews of the costs sponsors control — such as administration, insurance and maintenance — by examining sponsor budgets and audited financial statements. These costs amount to about 29 percent of total sponsor costs. The second process involves negotiation of favourable mortgage rates for sponsors, as debt servicing amounts to about 60 percent of total sponsor costs. The third process is managing the amount set aside in reserves to replace capital assets, such as roofs and refrigerators.

Reviews of Controllable Costs

The Office of the Auditor General recommends that:

- *BC Housing use external cost comparisons in the budgetary review process.*
- *BC Housing develop guidelines for budget approval based on criteria using percentages or dollar-value increases from prior years' budgets.*
- *BC Housing ensure that the most current financial information is used in the budget review process.*
- *BC Housing record and accumulate information gathered in the financial review process in a way that assists all staff of BC Housing to direct their efforts towards those sponsors most in need of support.*

The Auditor General's report explained that BC Housing reviews the sponsors' budgets for future years, and their audited financial statements, to ensure that costs are reasonable and to identify items not eligible for subsidies. The audit found that these reviews provide reasonable assurance that the sponsors are generally using their resources economically and efficiently, but it concluded that BC Housing's financial review processes can be improved.

BC Housing informed the committee in March 2000 that it agreed with all the Auditor General's recommendations and was in the process of implementing them. However, it could not take unilateral action, as the recommendations have an impact on the way the sponsors manage their portfolios. To get sponsor input, BC Housing has sent out a summary of the Auditor General's review to 1,000 social housing providers. It has also formed a number of working teams with the sponsors to implement the recommendations.

BC Housing is also engaged in an identification of external cost comparisons, an analysis of year-over-year percentage changes and an analysis of costs by project type and geographic location. Collection of this information would be part of the agency's Corporate Services Branch workplan. The agency's detailed multi-year business plan — specifically, strategic objective 2.1 —suggests that successful implementation of the recommended changes to existing procedures will occur after consultation with the sector.

Mortgage Negotiations

The Office of the Auditor General recommends that:

- *BC Housing supplement its existing mortgage expertise by securing access to specialist advice for periodically confirming the suitability of the commission's mortgaging strategies and for advice on specific issues.*
- *BC Housing confirm the appropriateness of its performance measures and its targets for mortgaging activities by comparing them with housing and similar agencies in other jurisdictions.*

The Auditor General's office told the committee that outstanding mortgages total about $1.25 billion, of which about one-fifth are

negotiated or renewed with lending institutions by BC Housing on behalf of the sponsors. The key finding of the audit was that BC Housing generally gets good rates in negotiating mortgage renewals, in the range of between 0.5 and 1.5 percentage points below residential mortgage rates.

To ensure that the mortgage portfolio continues to be well managed, BC Housing informed the committee that it would be seeking specialist advice to confirm that mortgage strategies attract the lowest rates. There are also plans to compare mortgage rate targets and performance measures with housing providers in other jurisdictions. Collection of this information would be part of the agency's Financial Services Branch workplan. This activity is part of the process outlined in the multi-year business plan regarding implementation of the subsidy audit's recommendations, and fits with BC Housing's strategic objective of "managing our resources, partnerships and technology effectively in order to add value and ensure that the greatest benefit is realized for the public, tenants

Replacement Reserves

The Office of the Auditor General recommends that BC Housing improve the administration and control over replacement reserves by:

- *periodically confirming that its funding model for replacement reserves continues to provide the most efficient and effective way of funding capital replacement in social housing developments;*
- *periodically reviewing the continued validity of the assumptions included in its funding model for replacement reserves;*
- *monitoring more closely the relationship between the replacement values of assets covered by replacement reserves and the extent to which the reserves have been funded;*
- *using its information systems more extensively to learn more about the usage of capital assets so that the commission can confirm that the estimated useful lives of the assets for funding purposes are determined as accurately as possible;*
- *reviewing and changing as needed its investment policies for replacement reserve assets to ensure they provide the optimum blend of earnings potential, liquidity and risk.*

In response to the audit's finding that BC Housing was using a reasonable model for replacing capital assets, the agency's representatives stressed to the committee how important it is for replacement reserves to be adequately funded, used and tracked, because the moneys belong to the sponsors. To implement the Auditor General's recommendation, a staff committee was created to review the funding model and underlying assumptions, investment policy, appropriate levels of funding, cyclical maintenance requirements and life cycle costing. Also, the agency will be consulting with the housing sector in July 2000 to discuss options.

Tenant Rents

The Office of the Auditor General recommends that BC Housing reduce the extent of its recalculation of tenant rents to a level that will provide it with reasonable assurance that tenant rents are materially correct for the purpose of calculating subsidies. The commission should also extrapolate the results of its testing for income loss from incorrect declarations of income and assets so that a conclusion can be made as to whether the likely total misstatement of tenant rent from this cause is at a level that the commission can accept.

The results of the audit indicated that the nature and extent of BC Housing's rent calculation processes address the major risks of misstatement of tenant income and provide reasonable assurance that the tenant rental contributions used in calculating subsidies are accurate. However, by redoing every calculation that sponsors perform, BC Housing is carrying out more work than it needs to gain a reasonable level of assurance that subsidy payments are correct.

BC Housing informed the committee in March 2000 that a process is underway to simplify the rent calculation process. An initial consultation with the social housing sector took place on February 29, 2000, with a subsequent meeting scheduled for March 16, 2000. A plan of action would be developed by March 31, 2000 that would focus on increasing the overall level of efficiency, as directed by the Auditor General's office. The BC Housing board approved recommended changes on April 29, 2000. According to the agency's latest "Housing Sector Update," a simplified and more efficient rent calculation process will be in place by October 1, 2000.

Concerning tenant incomes, committee members suggested using information technology to link up with different ministry registries in the province so as to minimize the problem of fraudulent claims. In response, BC Housing stated that it is currently working with the Ministry of Social Development and Economic Security to obtain direct access to the BC Benefits registry to correlate information regarding income levels. In addition, BC Housing does random audits of about 25 tenants each month to see how effective the provision of information is. Although problems do arise from time to time, the system polices itself in the sense that tenants will usually inform BC Housing if they suspect that their neighbours are making fraudulent claims.

Subsidy Payments

The Auditor General's report concluded that appropriate authorities exist for paying subsidies to sponsors of social housing developments, and BC Housing has satisfactory controls over the approval and calculation of subsidy payments. As a result, it made no recommendation with respect to subsidy payments.

Standards of Service

The Office of the Auditor General recommends that:

- *BC Housing record the results of operational reviews in a more uniform and comprehensive way so that they better disclose the extent to which sponsors are individually and collectively delivering an appropriate standard of service to tenants.*
- *BC Housing ensure that its information systems report the information about sponsors that property portfolio managers need to properly prioritize operational reviews. As well, BC Housing should ensure that the systems provide regional managers with information to allow them to assess whether the prioritization of reviews is appropriate and the reviews and follow-up are carried out on a timely basis.*
- *BC Housing, on an annual basis, obtain copies of management letters issued by financial statement auditors to the sponsor boards, or obtain confirmation that none were issued.*
- *BC Housing ensure that board members be present for the conduct of operational reviews and to discuss the findings, and that commitments be obtained from the board of directors of the sponsors as to future remedial actions. The implementation of action plans should be monitored and documented by BC Housing's property portfolio managers.*

The audit of BC Housing's operational reviews sought to confirm the extent to which standards of service are being delivered by sponsors. It found that although these reviews are designed and generally carried out adequately, where deficiencies are noted follow-up is not always effective.

BC Housing informed the committee in March 2000 that it would maintain more systematic recording of information and develop action plans when operational issues warranted them. The committee also learned that staff resources will be directed to housing providers needing assistance to build capacity within the sector.

CONCLUSION

In March 2000 the committee requested that BC Housing provide target dates for implementation of the Auditor General's 12 recommendations regarding the management of subsidies. In response, the agency stated that when it provided the committee with the 2000/01 corporate plan, every one of the recommendations would have a date for implementation.

In June 2000, BC Housing forwarded the corporate plan summary for 2000/01, along with the detailed business plan for the 2000/01 to 2002/03 period, which supports the corporate plan. It is noted that these documents do not contain specific dates for implementation of the recommendations. Its quarterly accountability framework, though, does identify time targets.

This year the Public Accounts Committee asked the Auditor General's office to do follow-up reviews on all performance audits it conducts, approximately six months after the committee reviews the original report. The Auditor General's office asked BC Housing and the Ministry of Social Development and Economic Security to provide information by August 31, 2000 for follow-up purposes. Follow-up information was received by the committee in early November, 2000.

Committee Recommendations

Your committee recommends that:

The government implement the 15 recommendations relating to governance, and the 12 recommendations relating to the management of social housing subsidies, contained in the Auditor General's 8th report for 1999/2000, *Social Housing: The Governance of the British Columbia Housing Management Commission and the Provincial Rental Housing Corporation; The Management of Social Housing Subsidies.*

APPENDICES

I — Written Submissions/Correspondence

Response by BC Housing Management Commission [and] Ministry of Social Development and Economic Security to Auditor General Report on Social Housing, Written Presentation to the Public Accounts Committee, March 7, 2000.

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BC Housing, 1999/2000 Performance Report.

BC Housing, Draft Terms of Reference, The Benefits of Social Housing, April 2000.

BC Housing, Evaluation of the Sunrise and Washington Hotel: Development of a Research Design and Baseline Report, September 1999.

Correspondence from Jim O'Dea, Chair, BC Housing, to the Select Standing Committee on Public Accounts, dated June 30, 2000.

Minister of Social Development and Economic Security, Letter Re: Office of the Auditor General's Report on BC Housing Governance and Subsidies, December 29, 1999.

Ministry of Social Development and Economic Security, Letter Re: Select Standing Committee on Public Accounts draft report on social housing, November 1, 2000

Correspondence from Errol Price, Principal, Office of the Auditor General to Shayne Ramsay, CEO, British Columbia Housing Management Commission, dated July 17, 2000.

Correspondence from Errol Price, Principal, Office of the Auditor General of British Columbia to Sharon Manson Singer, Deputy Minister, Ministry of Social Development and Economic Security and Jim O'Dea, Chair, British Columbia Housing Management Commission, dated July 17, 2000.

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Ministry of Health and Ministry Responsible for Seniors, "Health Goals for B.C.," 1997.

Ministry of Municipal Affairs and Housing, "British Columbia's Strategy for Affordable Housing," April, 1996.

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"Measures to Combat Housing Fraud" — twenty-seventh report of the U.K. Select Committee on Public Accounts, March 26, 1998.

Province of Ontario, Ministry of Municipal Affairs and Housing and Ontario Housing Corporation, "Rent Supplement Programs," 1998.